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REGIONAL DIVERSITY IN INDIA: A DECADE BEFORE AND AFTER THE NEW ECONOMIC POLICY OF 1991

NITASHA KAPILA*

Guest Faculty of Economics, DES-MDRC, Punjab University, Chandigarh, India

ABSTRACT

India is an economy with vast regional disparity in various aspects. The regions differ in terms of growth, income and employment With the New Economic Policy of 1991 launched under the leadership of P.V. Narasimha Rao, the Indian economy opened up to the private & foreign players along with the reduction of import duties and devaluation of Indian currency. This study explores the extent of regional diversity in India, a decade before and decade after 1991. For this, the paper looks into the variation in the per capita net state domestic product at factor cost (at constant prices; 2004-05 base) of 19 major Indian states from 1980-81 to 2013-2014. Also the growth rate of the per capita NSDP for these states is examined. The study also looks into the kind of regional policy measures needed for inclusive growth. The results show an increasing disparity among the states over the time period. Also, the estimates of the growth rates in the per capita NSDP showed divergence among Indian states over the time period, with low income states growing at a lower rate and high income states growing at a higher rate, in terms of per capita NSDP (net state domestic product). The main findings are that, since planning though the focus was on equal regional development, still the regional inequalities prevail. The disparity in income levels can be attributed to the allocation of private investments, unfair extension of infrastructure and public expenditure across states. However, the study finds that the industrial states are growing at a higher pace than the backward states. The policy implications are that, the human development dimension should be taken well into consideration when - sector programmes are formulated and implemented. A regional policy should stress on development of economic activities so as to achieve sustainable income and employment. Also it should focus on policies that make innovations inclusive.

KEYWORDS: Regional Diversity, Economic Growth, Inclusiveness, Innovation & Knowledge

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Original Article

1. INTRODUCTION

India is a diverse economy with wide regional differences. The regions differ in terms of growth, income and employment. Achieving growth is different from wrapping each in its trajectory. An economy can experience growth in terms of income and production by amplification of its knowledge base. As per Schumpeter's view, making use of new knowledge or making use of old knowledge in new ways leads to innovation and hence economic development. The economic growth is dependent on innovation which in turn depends on how we create, disseminate and apply knowledge. As per Nonaka and Takeuchi (1995), innovation is creation of knowledge to recreate environment. Porter (1990) recognizes innovation much more than technology. His definition points at knowledge and learning, the key concepts of a knowledge- based economy. It's a network based economy creating innovations at an inter-firm level, provided there is high degree of trust among the people [Boekema, Morgan, Bakkers and Rutten 2001].

In the years earlier to Independence, "a pattern of 'agglomerated ' growth emerged, with islands of

concentrated growth but having a very weak dispersal effects..."(Bharadwaj 1982: 609). It is seen that though the growth has stretch after taking up of economic planning, but still the diversities in growth level prevails. The regional discrepancy (interstate) in economic well-being is a very typical feature of economic transformation in India [Ramaswamy 2007]. "In fact, a major thrust of the economic policy, since the initiation of the planning process way back in the 1950s was to foster 'balanced' regional development with active support for industrialization in backward regions as well as through minimizing inter-regional disparities in costs and prices" [Ghosh, Marjit and Neogi 1998: 1623]. A regional policy has to focus on how it can help a region to develop its economic activities for sustainable employment and generating income [Landabaso 2001]. Inclusive growth analytics has a very individual quality emphasizing on both the speed and model of growth. Inclusive growth means a direct relation among the macro and micro determinants of development. The Commission on Growth and Development (2008) comments that inclusiveness - a notion that encompasses equity, fairness of opportunity, and security in market and employment transitions – is a crucial component of any victorious development policy. The inclusive growth policy takes a longer term point of view as the center of attention is on industrious employment rather than on direct income relocation, as resources of growing incomes for expelled groups. Inclusive growth is related to increasing the pace of development and expanding the size of the economy, while setting the playing field for investment at the same level and rising productive employment opportunities. It lays emphasis on ex-ante scrutiny of sources, and constraints to sustained, elevated development, and not only on one group – the poor. [Ianchovichina and Lundstrom 2009].

A regional policy should take into account various considerations for innovations to be made inclusive. Broadly innovation means entrepreneurial promotion actions by firms that revolve new ideas (as rooted in product, process, organizational and marketing technologies) into wealth: firstly, from new-to-the-firm adjustment of currently present technology and secondly, to formation and commercialization of new-to-the-world technology. There is a need to concentrate on spurring innovation as a driver of inclusive growth because, firstly, growth is not leveled, initially in particular firms/sectors and sub-national agglomerations (Hausmann, Pritchett and Rodrik, 2005, "Growth Accelerations"), secondly, variations in conventionally measured inputs clarify less than half of massive cross-country disparities in per capita GDP-understanding black box of total factor productivity as a key growth challenge. Lastly, with amplified globalization and competition dropping traditional rents, rents based on fresh thoughts are becoming more essential for capital gathering and development. Unless policies leads to the development of technological capabilities, markets will not draw sectors with low capabilities on the way to inclusive growth [Dutz 2011].

Innovation is variable over time and space. It widely varies across sectors with regard to characteristics, sources, actors occupied, the margins of the procedure, and the association of innovative activities [Malebra 2013]. Since long India's growth policies have been such that they have believed in the 'trickle down ' approach, but up to what extent this has been true and benefited the lower strata needs to be analyzed.

The eleventh five year plan laid stress on 'inclusive growth' as an important issue for the economy [Planning Commission 2007]. Whether or not Indian states are having inclusive growth pattern is a major question.

The rest of the paper is organized as follows. The theoretical and empirical overview of literature is discussed in section II. Next, section III discusses the methodology followed by the empirical evidence and discussion in section IV. The final section V contains the summary, conclusions and policy implications.

2. THE THEORETICAL AND EMPIRICAL OVERVIEW OF LITERATURE

There is nothing like an "ideal model" that exists for innovation policy. This is because an innovation activity varies across different areas. In peripheral regions the main problems are a low level of R& D and innovation. Whereas, in the old industrial regions there are many firms, but they work on the old technological trajectories. Due to such varieties of innovation problems a different innovation policy measure is required. In peripheral regions, we need to attract external companies and embed them into the region. Whereas in old industrial regions, renewal of old sectors and up gradation of knowledge base is required. To conclude, in order to implement interventionist actions, the policy makers must have a vast knowledge of regional innovation system. They face challenges like overcoming old routines and adopting new ones and also take into view the changing role of the government and new intervention techniques [Todtling and Trippl 2005].

The study by Rao, Shand and Kalirajan (1999) proves widening interstate disparities in India. The authors conclude that divergence in income levels was due to the allocation of private investments, which have been further influenced by the unjust expansion of infrastructure. The rise in disparity has been severe in the initial ears of liberalization. States with large initial stock of incomes grew at a higher pace than those with lower incomes leading to per capita income level disparity over time. The uneven nature of public expenditure across states is credited to the incapacity of the intergovernmental transfer apparatus to effectively counterbalance the fiscal disabilities of the poorer states and also the regressive nature of the invisible interstate transfers. The study suggests that there is a need to rationalize the tax system along with correcting the imbalances in the expansion of infrastructure regional policies and inter-governmental transfers.

Bhattacharya and Sakthivel (2004) in their study indicated that despite the marginal improvement in India's gross domestic product in the post-reform decade, the regional disparity in the state domestic product (SDP) has expanded much more severely. Industrial states are now developing very much faster than backward states, and there is no indication of convergence of growth rates amid states. The deregulation of private investment, faster growth, hence more investment will increase the disparities further. Alarmingly, there is now also an inverse association between population growth and SDP growth. Solution lies in speeding up reforms in backward states to achieve balanced regional growth.

Hassink (2004) compared the regional innovation support systems in South Korea and Germany. The main conclusions of the study were that there are similarities amid the regional innovation support systems established in both the nations as far as policy instruments are concerned, but that the countries differ with regard to their rank of institutional embeddedness and the capacities of regions to harmonize innovation support policies. The author also tentatively concludes that in countries where regions have the aptitude to match up policies into integrative innovation support systems, the influence on regional economic development is likely to be bigger than in countries where these capabilities are deficient, that is where grassroots support systems prevail.

As per Malebra (2013), knowledge, technological domain and sectoral boundaries; agents, interactions and networks; and institutions are the basic building blocks of a sectoral system of innovation and production. Firms play an important role in the adoption and use of new technology. Other than firms, the actors include users and suppliers, universities, financial organizations, government agencies, local authorities, etc. It concludes that those countries that did not have efficient sectoral system distinctiveness did not execute well in international markets. For understanding the innovation in sectoral systems, the incorporation of descriptive, quantitative, econometric and theoretical analysis is needed. Nijkamp (1987) finds that capital Investment as the quintessence of technology has provided constructive insights

into the nature of process innovation. Part of the regional distinctiveness of production results from the fact that regions diverge both in the products produced as well the stage of production at which they are producing. Investment in growth and production of latest products varies spatially. Wan and Peilei (2008) summarizes that location contributes the mainly to the innovation disparity. Unequal development in high-tech Park plays a most important function. Policy makers in China ought to focus on promoting enterprises participation in innovation and promotion of domestic high-tech companies in internal provinces. Also, it suggests for a more stable approach in human capital investment.

Osmani and Naseem (2009) have attempted to inspect the matter of inclusive growth and compare it with the concepts such as pro-poor growth and equitable growth. Authors also looked into the current South Asia's experience. The four countries compared are India, Pakistan, Bangladesh and Sri Lanka from 1971-2005. The complementary characteristic of accelerated poverty diminution and increasing dissimilarity implies that the development practice had been inclusive in a few magnitude but not in rest. The analysis shows that the horizontal equity (between groups) of every nation of the region has been served superior than the vertical equity (within groups). Therefore the basic hitch in all four countries studied was fundamentally identical i.e., though the development course has brought about huge opportunities to achieve from the development process, in each group a few individuals have been unsuccessful to attach to the development process, thus mounting inequality. The major botheration was that amongst every group a few individuals were unskilled and there was lack of endowments needed to cope up with the development. To bring to a close the steps to be taken are basically related to policy interventions that will support the endowments and skills essential for the poor to deal with the growth, hence inclusive growth can be achieved.

Rao (2009) has compared the extent of inclusiveness in India’s development during pre-2004 period and the time period subsequent to that. The inequalities in the current phase of faster development are more outstanding than 1950-1980. During the pre-2004, the growth rate of agriculture GDP came down. Reforms of 1990s overlooked the regions that were endowed less. The evidence since 2004 says that there was sustained GDP expansion due to healing of manufacturing sector, but this is not ample for inclusive growth. In the end, the inclusive growth can be attained only through inclusive politics, which is mournfully missing at the grass root levels. As per Lambooy (2001), the regions that gain from agglomeration economies have an access to a vital source of economic growth i.e., knowledge. The three aspects of learning brought up in this study are: the cognitive, the institutional and the spatial. Further, he laid stress on the linkage between knowledge, innovation, learning regions and agglomeration economies. Accordingly, varied agglomerations can support networks and institution, which are vital to encourage learning and innovation.

Landabaso (2001) has examined the policy and practice of learning regions through European channels. He talks about two types of conditions needed for a regional innovation policy: The first, the necessary condition i.e., the essential physical infrastructure like communication, road, air and human resources with a minimum level of training and second is the sufficient condition i.e., the intangibles, related to regional strength to innovate, transfer of technology, quality of management etc. The sufficient condition depends on the assumption that competitiveness relies on its own forces and of the structural competitiveness or quality of environment. Effective regional policy must create both necessary and sufficient conditions. It shows how EU’s policy is changing to improving the sufficient conditions, mainly in the underprivileged regions. Rutten, Bakkers and Boekema (2001) say that the regional actors should achieve productive co-operation among themselves and national actors. The purpose of learning is innovation and basic building block of it is knowledge. Knowledge is characteristic of people; they can disperse knowledge and create networks. These networks are

ties to regions. This means globalization and localization are complementary. So to understand global economy we must start at regional level. Also the role of government has changed from rule-maker to animateur.

As per Chataway, Hanlin and Kaplinsky (2014) moving on the path of 'inclusive innovation' will help in overcoming exclusion and also the uncoupling of economic growth along with the socio-economic development. The study concludes that a more holistic and balanced approach to inclusive innovation should be adopted by the stakeholders so that the recoupling of growth and development could be aided. The study suggests the need of a stronger evidence base required for both the public and private actors to promote inclusive innovation.

3. METHODOLOGY

In order to examine the extent of regional disparity in India, we have calculated the coefficient of variation in the per capita net state domestic product at factor cost at constant prices of 19 Indian states (base: 2004-05). The data for the same was taken from the *Handbook of Statistics on the Indian Economy*, Reserve Bank of India (2013-14). We have used simple statistical techniques to process the data such as coefficient of variations and regression analysis. The processed data is shown with the help of graphs which is helpful in discerning the broad trends of regional disparity across Indian states. The time period covered in the analysis is from 1980-81 to 2013-14.Also, we have plotted the growth rate of per capita NSDP at factor cost for the individual states from 1980-81 to 2013-14.

4. THE EMPIRICAL EVIDENCE AND DISCUSSION

We can conclude from the outcomes in figure 1 that the disparities have been increasing as far as the state income is concerned. As far as figure 2 is concerned, we have plotted log of per capita NSDP of Indian states (in ascending order) against their growth rates. The outcome obtained shows that the low income states have lower rate of growth of per capita NSDP and high income states have rate of growth of per capita NSDP at higher levels. Also, we have run the regression for the log of per capita NSDP at factor cost for 1980-81, at constant prices (2004-05 base) and rate of growth of per capita NSDP at factor cost, at constant prices (2004-05 base) in SPSS. The output obtained is as follows:

$$y = 1.271 + 0.664\ pci$$

This regression equation thus obtained shows a positive relation between dependent variable (growth of per capita NSDP) and independent variable (log per capita NSDP 1980-81). This proves that states with an initially lower level of incomes have a lower rate of growth of per capita NSDP and states with high levels of income have higher level of rate of growth of per capita NSDP. This signifies divergence among the states over the time period. **"**Despite global shocks, India has not compromised on welfare expenditures especially for the needy and marginalized, though growth has lagged behind." [GOI 2014: 230]. In order to be inclusive in growth, macro pro-poor and people- centric policies are needed [Dev 2008]. The majority of theories that are related to innovation and regional-economic improvement have been developed in the West, and a few of their inherent internal assumptions hold correct only in Western countries. One instance is the manner in which a company operates in a market economy. When applied to China, these concepts possibly will give hardly any results. The foreign-invested firms have a tough strategic concentration on innovation, which directly highlights one source for enduring disparity among firms in the Pearl River Delta. The high-tech parks in China diverge from peers in the West that they place stress on serving as hubs for regional- economic amalgamation and advancement. The affiliates of foreign firms hold a chief stance in Chinese networks despite of the spatial room of the networks examined [Liefner and Wei 2011]. There is a pause in financing for inclusive innovation and social entrepreneurship, besides the banking systems,

a number of matching kinds of financing organizations are existent that utilize distinctive kinds of apparatus to inclusive innovation and social entrepreneurship in India [Sonne 2012]. The obtained outcomes in terms of graphs are as follows:

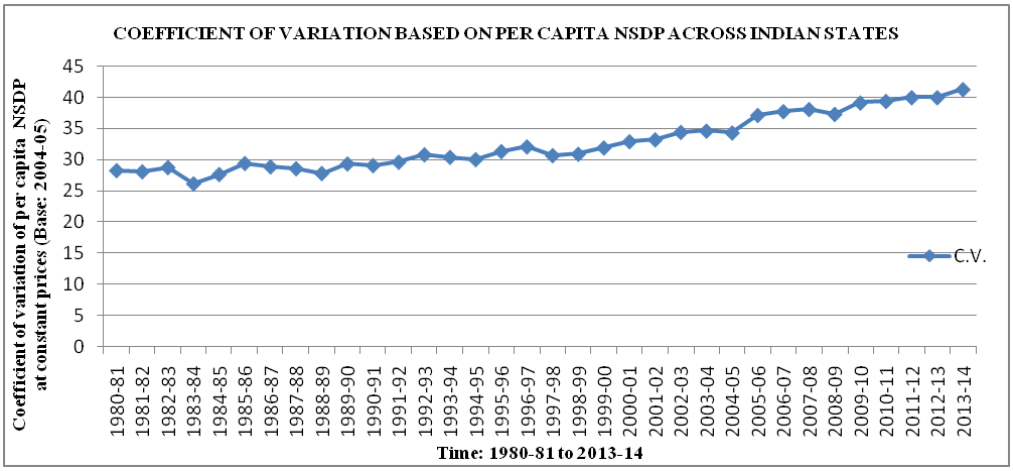

Figure 1: Coefficient of Variation based on per Capita NSDP at Factor Cost at Constant Prices of 19 States form 1980-81 to 2013-14 (2004-05 base).

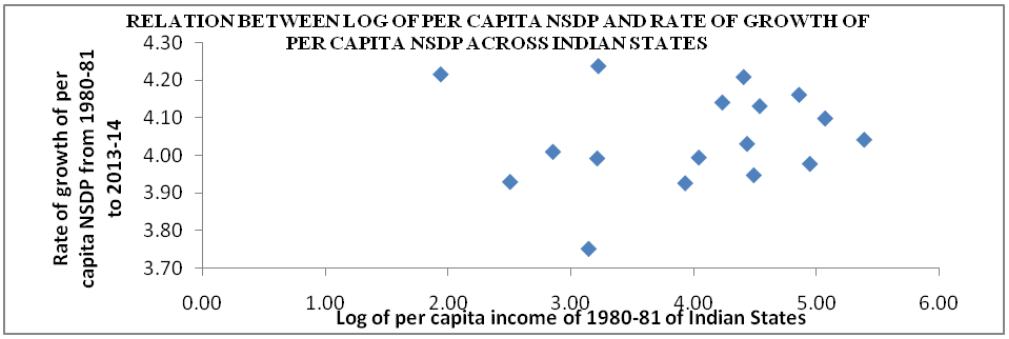

Figure 2: Relation between log of per Capita NSDP and Rate of Growth of per Capita NSDP Across Indian States.

"Much is known about basic nutrition, sanitation, preventive medicine, environmentally friendly technologies, cheap mobile phones, and the like. But poor people's needs are broader than the few listed and monitored as part of the MDGs, and further innovation is required to improve delivery of a wide range of public services. Far more needs to be done on preventive medicine, clean water, education, and other public services that can benefit from harnessing collaborative efforts of formal creation efforts for the poor. What is needed is not only to reduce the costs and increase the availability of goods and services needed by the poor, but more important, to open up sustainable livelihood and productive income-generating opportunities for the poor. How innovation through access to new and existing technology can help create more and better-paying jobs for enterprises that the poor work in or run has not received enough attention, and is a major focus of this chapter. In addition to strengthening poor people's capabilities, solutions will involve strengthening incentives, policies, and institutions. Part of the solution will be in stronger institutional infrastructure. In addition to closer collaboration between public R&D entities, industry, universities, nongovernmental organizations (NGOs), and global networks to better meet the needs of the poor, the poor could gain by organizing themselves in groups." [Utz and Dahlman 2007: 105-106].

India should incite its ecosystem completely to attain faster, sustainable and inclusive growth. More "frugal, distributed, affordable innovation" that produces more "frugal cost" products and services that are reasonably priced for people at low down levels of income without compromising the security, effectiveness, and efficacy of products is needed [Planning Commission 2012]. As far as the Indian Science, Technology and Innovation Policy 2013 are concerned, the guiding foresight of hopeful Indian STI enterprise is to fasten the speed of discovery and delivery of science-led outcomes for faster, sustainable and inclusive growth [Ministry of Science and Technology 2013]. "In order to promote inclusive innovation, new strategies of regional and global cooperation are critical." [OECD 2014:3].

Government of India has taken several measures to foster inclusive growth. MGNREGA and food security act were undertaken to provide guaranteed employment and minimum food availability. These measures/steps taken by the state were to ward off the adverse impact of faster economic growth achieved by the country. Government of India and RBI has made efforts for financial inclusion to increase the banking penetration. These are like: nationalization of banks in 1969 and 1980, establishment of RRBs, self help groups. As far as innovation in India is concerned, in March 2010, the President announced the government's vision by declaring the current decade as the "decade of innovation" [Nation Innovation Council, 2010-14]. There were notable efforts seen on the part of the government in this respect. As far as policy objective of inclusive growth is concerned, licensing policy, priority sector lending (reservation of 20% credit), tax concessions and subsidies, incentives for investments in backward areas, planning commissions tied and untied grant are the various policy measures taken by the government. Government of India is also planning to bring about schemes for the skill development of minorities. The new aim of "make in India" is expected to help the economy to boost employment and skill development, hence inclusive growth with innovation. Government has also lately proposed to revamp various social sector schemes, with this the scope of skilled development will widen.

It is well known that capitalist economic growth based on the play of market forces is exclusionary in nature. Therefore, the policy initiative taken by the Indian government out rightly helps the poor and vulnerable section of Indian society but in the long run cannot solve the problem of market forces lead exclusion. Until the deprived section of the society is not involved in the mainstream production system, the inclusive growth will be a distant goal. Here lies the role of innovation policy and system of innovation to organize the production system in a manner that the participation of the deprived section of the society in the mainstream production system can be ensured.

5. CONCLUSION AND POLICY IMPLICATIONS

India is an economy with wide regional differences. This paper has extensively explored regional disparity, inclusive growth and innovation from the perspective of world in general and India in particular. To measure the extent of regional disparity in India, we have calculated the variation in per capita net state domestic product at factor cost of major 19 Indian states covering the period 1980-81 to 2013-14. The results show an increasing disparity among the states over the time period. Also, the estimates of the growth rates in the per capita NSDP showed divergence among Indian states over the time period, with low income states growing at a lower rate and high income states growing at a higher rate, in terms of per capita NSDP (net state domestic product).

The inclusive innovation will help in reducing exclusion and also separation of economic growth with socio-economic development. Though India has not compromised on welfare expenditures for the marginalized and needy, still a lot needs to be done to catch-up. The main findings are that, since planning though the focus was on equal regional development, still the regional inequalities prevail. The disparity in income levels can be attributed to the allocation of

private investments, unfair extension of infrastructure and public expenditure across states. However, the study finds that the industrial states are growing at a higher pace than the backward states. Location plays a key role as far as innovation disparity is concerned. The development practice has been inclusive in a few aspects only. There is a gap in financing for inclusive innovation and social entrepreneurship, besides the availability of banking system and other organizations.

The policy implications are that, the human development dimension should be taken well into consideration when - sector programmes are formulated and implemented. The expenditure on quality of education, health care, social infrastructure and skill development, greater share of women in decision-making should be ensured. Economic and social empowerment is essential for inclusive development. Intermediaries need to be abandoned to avoid delays. Private sector needs to come up more. There is a need of macro pro-poor and people centric policies. A regional policy should stress on development of economic activities so as to achieve sustainable income and employment. Also it should focus on policies that make innovations inclusive. Rationalization of tax system is required, besides correction of the imbalances in the extension of infrastructure regional policies and inter-governmental transfers. There is a need to fasten up reforms in backward states for balanced regional growth. Policy interventions supporting the endowments and skills needed for the poor to deal with the growth are needed, hence inclusive growth can be attained. Inclusive politics is the ultimate need for inclusive growth. Innovation ought to be made an important part of the regional development policy agenda in a correct way. We must begin with the regional level to understand the entire global economy and new strategies of regional and global cooperation are needed for inclusive innovation. Policy requires government support, consultation, regulatory efforts and assessment. There is a need to not only lessen the cost and raise the availability of goods and services for the poor, but also a sustainable livelihood and productive income-generating opportunities needs to be opened up. Strengthening incentives, policies and institutions are needed to build up poor people's potential. Along with closer collaboration between public R&D entities, industry, universities, nongovernmental organizations (NGOs), and poor, the poor can also benefit by organizing themselves in groups. There is a need to have a long term approach to promote innovation.

To sum up, if we look at the development experience of India, there are huge structural diversities across Indian states. There has been rise in the number of billionaires as well as the inequality have risen. Universities, firms, financial organizations, government agencies, local authorities, agents, interactions and networks, institutions are the basic building blocks of a sectoral system of innovation. We need to focus on spurring innovation as a key factor of growth due to uneven growth and also because of increasing globalization, rents based on latest ideas are becoming vital for capital accumulation and growth. Unless policies will focus on developing technological capacities, markets will not put less capability sectors towards inclusive growth. As far as financial inclusion is concerned, government has taken many steps towards it, but we still need to introduce innovative institutions and various methods for delivery of credit that promotes incluisveness.

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